

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-69-S

1 IN RE:)
2)
3 Application of Palmetto Wastewater)
4 Reclamation LLC d/b/a Alpine)
5 Utilities and d/b/a Woodland Utilities for)
6 adjustment of rates and)
7 charges for, and the modification of)
8 certain terms and conditions related to,)
9 the provision of sewer service.)
_____)

DIRECT TESTIMONY
OF

FRED (“RICK”) W. MELCHER III

Q. PLEASE STATE YOUR NAME, PRESENT POSITION AND BUSINESS ADDRESS.

A. My name is Fred (Rick) W. Melcher III and I am employed as Manager of Public Relations for Ni America Operating, LLC. My business address is 10913 Metronome Drive, Houston, Texas 77043.

Q. WHAT IS NI AMERICA OPERATING, LLC?

A. Ni America Operating, LLC (Ni America) is owned by Ni America Capital Management, LLC, which owns Ni South Carolina Utilities LLC, the sole member of Palmetto Wastewater Reclamation LLC, doing business as Alpine Utilities and Woodland Utilities, or “PWR”, the Applicant in this proceeding.

Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?

A. As Manager of Public Relations for Ni America, it is my responsibility to serve as the liaison between all of our operating subsidiaries and regulators, our customers, other

1 governmental agencies, the media and the general public. In that capacity, my duties
2 include coordinating meetings between operating subsidiary personnel and regulators,
3 customers and the media, attending state commission meetings on behalf of our utilities when
4 appropriate, and testifying in state commission hearings when necessary. I coordinate any
5 requested presentations by our operating subsidiaries at these meetings. I also monitor matters
6 before state agencies and legislatures as they relate to our operating subsidiaries.

7
8 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

9
10 **A.** I am a 1980 graduate of Texas A&M University with a Bachelor of Business degree.
11 I was first employed in the regulated industry field in 1978 by Southwestern Bell
12 Telephone Company and trained to manage personnel working with customers in the
13 Business Office and in AT&T Phone Center Stores. From 1997 to 2002 I was Manager of
14 Public Relations for AquaSource Utility Company, a national provider of water and wastewater
15 services. I have been Public Relations Manager for Ni America since its inception in
16 2007.

17
18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?**

19
20 **A.** The purpose of my testimony is to support the application of Palmetto Wastewater
21 Reclamation LLC, which I will refer to in my testimony as "Palmetto Wastewater," "PWR" or
22 the "Company." By its application, the Company seeks an increase in its sewer rates and
23 modifications to certain terms and conditions of its sewer rate schedule. Specifically, I will
24 be discussing the Company's efforts to educate customers about the rate relief proceedings
25 in general, its specific need for the rate relief sought in this case, the repairs and improvements
26 it has made, including those required to meet environmental regulatory standards, the

1 continuing need to eliminate the introduction of fats, oils, and grease into the Company's
2 system, and the Company's proposal that the current rate design for the Alpine System
3 customers employing wastewater capacity design guidelines set out in Appendix A to Regulation
4 61-67 to determine commercial customer rate equivalencies be applied to customers served by
5 the Woodland System as well. I will also describe the Company's commitment to customer
6 service and the customer service programs we have undertaken, as well as our participation in the
7 2014 Water and Wastewater Workshop Sponsored by the Commission and the Office of
8 Regulatory Staff, or "ORS." Finally, I will discuss the results of our survey of commercial
9 customer equivalents for purposes of determining the correct number of single family
10 equivalents, or "SFEs," attributable to their service.

11 **Q. WHAT IS PALMETTO WASTEWATER'S PHILOSOPHY WITH RESPECT TO**
12 **COMMUNICATIONS?**

13 **A.** We believe that well-informed customers and regulators best serve the interests of all
14 stakeholders. Sewer utilities and their customers face increasing capital and operational costs to
15 address higher levels of environmental regulation and the fact of aging infrastructure. It serves
16 the interests of everyone with a stake in sewer utility operations to communicate regularly,
17 openly and frankly. We also believe that education of our customers regarding regulated utilities
18 and the role of the regulators is crucial to the regulatory process and to the operation of a well-
19 run utility. As an example of how we act upon this belief, the Company began communications
20 with its PWR customers immediately after acquisition of the Alpine and Woodland systems with
21 the mailing of a New Customer letter that addressed the change in ownership of the utilities, an
22 introduction to our company and the need for improvements and repairs to the system. This
23 letter further discussed our intentions to hold regular customer meetings designed to create an

1 open dialogue regarding the needs of the utility, the required improvements and the regulatory
2 process. A copy of this New Customer letter is attached to my testimony as Exhibit RM – 1.

3
4 **Q. WHY WOULD PALMETTO WASTEWATER NEED TO MAKE AN EFFORT**
5 **TO EDUCATE CUSTOMERS ABOUT RATE RELIEF PROCEEDINGS IN**
6 **GENERAL?**

7 **A.** Although an application for rate relief for customers served by the Company's Alpine
8 system was filed approximately two years ago, it has been seven years since an application for
9 rate relief affecting customers served by the Woodland system has been filed. We believe that it
10 is important that our Woodland customers be provided information with respect to how a sewer
11 utility rate relief proceeding works, why it is needed from time to time, what occurs in a typical
12 proceeding, and how customers may participate. And, we think it is helpful to offer our Alpine
13 customers a reminder in this regard. In our experience, we find that the greatest number of
14 customer issues in ratemaking proceedings arise from a lack of understanding about regulated
15 utilities and the role of regulatory agencies in the process. In addition, we think that having a
16 customer base that is educated with respect to the workings of a specific rate relief
17 proceeding lends itself to more meaningful participation by customers in the process when
18 they do choose to participate.

19 **Q. WHAT EFFORTS HAS PALMETTO WASTEWATER MADE TO EDUCATE**
20 **CUSTOMERS ABOUT RATE RELIEF PROCEEDINGS IN GENERAL?**

21 **A.** In the first year after the Commission approved our acquisition of the Alpine system, the
22 Company held a series of three "Town Hall" meetings in which we discussed the rate relief
23 process in general. Following our application for rate relief in 2012, we held a fourth such

1 meeting to address the specific need for a rate increase for the Alpine System. To further ensure
2 that customers were aware of these meetings, we sent all customers letters notifying them of the
3 meetings and issued press releases regarding these meetings to *The State* newspaper. Copies of
4 these customer letters and press releases are attached to my testimony as Exhibits RM-2 and
5 RM-3. The subject matter covered in our presentations at these Town Hall meetings went
6 beyond information concerning rate relief proceedings in general. The presentations
7 included an introduction to the Company, a description of the Commission, ORS, and DHEC
8 and their respective functions, appropriate contact information, discussion of the improvements
9 needed for the utility to meet regulatory requirements, and a progress report of the status of
10 these improvements. A copy of the slides shown to customers in our presentations is attached to
11 my testimony as Exhibit RM-4. Representatives of both ORS and DHEC were invited to attend
12 these meetings and were present. On March 6, 2014, we held a “Town Hall” meeting with
13 customers served by both the Alpine and Woodland systems to discuss the specific reasons for
14 this rate proceeding. As with all of our customer meetings, this meeting provided a forum for a
15 two-way communications process wherein our customers provide us with their thoughts,
16 concerns and issues and we may respond accordingly and address their issues. Notification of
17 this meeting was made via a letter mailed to all Woodland and Alpine customers, a copy of
18 which is attached to my testimony as Exhibit RM-5. A copy of our presentation made at this
19 meeting is attached as Exhibit RM- 6. Again, representatives of both ORS and DHEC were
20 invited to be present for this meeting. Although our presentation to customers on March 6,
21 2014, contained some of the same information as presented in our earlier presentation, it is more
22 expansive with respect to information regarding the two systems and the need for rate relief.

23

1
2 **Q. WHAT SPECIFICALLY WAS DISCUSSED AT THE TOWN HALL MEETING**
3 **REGARDING THIS CASE?**

4 **A.** A number of topics were discussed, including the numerous sanitary sewer overflows,
5 or “SSOs”, in the PWR systems prior to their acquisition by our Company, the reduction in
6 SSOs under our ownership, the need for and status of improvements and repairs made to the
7 systems to reduce SSOs and limit inflow and infiltration, or “I&I”, the need for and
8 implementation of improved and more frequent operational and maintenance procedures, and
9 the resulting need for rate relief. Customers were informed of their rights in the rate process and
10 provided contact numbers for both the Company and ORS to address questions or comments
11 about the proceeding and the means by which they could comment to the Commission.
12 Additionally, personnel from the ORS and from DHEC attended these customer meetings and
13 were able to respond to customer questions in a face-to-face setting.

14
15 **Q. HAS THE COMPANY UNDERTAKEN ANY MEASURES OTHER THAN THESE**
16 **TOWN HALL MEETINGS TO COMMUNICATE WITH ITS CUSTOMERS?**

17 **A.** Yes. In addition to the Town Hall meetings, where all system customers are notified, the
18 Company has occasionally been invited to attend neighborhood HOA meetings, where smaller
19 groups of customers are able to interact with Company personnel. We are always pleased to
20 attend and address customer issues at these meetings, as well as to keep customers apprised of
21 utility plans and/or projects. The Woodland Hills Civic Association is the larger of these HOA
22 groups and the Company maintains regular communications with its President, Mr. Danny
23 Brabham. Mr. Brabham provides valuable feedback from both our Woodland and Alpine
24 customers.

1
2 **Q. DOES THE COMPANY BELIEVE THAT ITS EFFORTS TO EDUCATE**
3 **CUSTOMERS ARE EFFECTIVE?**

4 A. Yes, we believe that for several reasons. First, we know that the customers who have
5 attended the various meetings I have described have been provided with information regarding
6 the reasoning behind our application for rate relief and how they can participate in this process.
7 Second, our interactions with customers in these settings have allowed us to consider the views
8 of customers regarding our service, approved rates, and rate design. Finally, we believe that our
9 educational efforts are beneficial to the regulated community. As the Commission is aware, it
10 recently co-sponsored with ORS a Water and Wastewater Workshop on April 25, 2014, which
11 focused in part on customer education and communications. We were pleased to be asked to
12 participate in this workshop with a presentation describing our on-going efforts to educate our
13 customers and to coordinate our endeavors openly with ORS and DHEC. We believe our
14 presentation at this workshop, a copy of which is attached to my testimony as Exhibit RM-7,
15 may be useful to other jurisdictional sewer utilities in increasing the emphasis on utility-
16 customer communications.

17 **Q. WHAT IMPROVEMENTS HAS THE COMPANY BEEN REQUIRED TO MAKE**
18 **TO THE ALPINE AND WOODLAND SYSTEMS SINCE THEY WERE ACQUIRED?**

19 A. In connection with the transfer of the National Pollutant Discharge Elimination System,
20 or "NPDES", permit for the Alpine and Woodland systems from the prior owner to the
21 Company, we were required to commit to making certain repairs, replacements, or
22 improvements to the Alpine and Woodland systems. Additionally, each category of repairs,
23 replacements, or improvements was subject to a compliance schedule setting forth deadlines for

1 their completion. A copy of this Memorandum of Understanding is attached to my testimony as
2 Exhibit RM-8. The compliance schedule in the Memorandum of Understanding is significant
3 in the Company's determination of the priority given to the contemplated repairs, replacements
4 and improvements. A description and photographs of these repairs, replacements, and
5 improvements and repairs were included in the presentation made at the Town Hall Meetings as
6 shown in RM Exhibits 4 and 6. The testimonies of Mr. Clayton and Mr. Wallace provide detail
7 regarding the dollar amounts expended and the testimony of Mr. Sherwood provides detail
8 regarding the nature of the work done on these projects.

9 **Q. YOU MENTIONED A NEED TO EDUCATE CUSTOMERS ON THE ISSUE OF**
10 **FATS, OIL AND GREASE; WOULD YOU PLEASE ELABORATE ON THAT?**

11 **A.** Yes. Although much of the information I am about to describe was previously submitted
12 to the Commission in the last rate case for the Alpine System, I think it is necessary to repeat
13 that information given that there are no provisions in the current rate schedule for customers
14 served by the Woodland system that address the introduction of pollutants into that system. By
15 this application, PWR seeks to have the same provisions pertaining to the introduction of
16 pollutants in the current Alpine rate schedule apply to customers served by the Woodland
17 System under the proposed consolidated rate schedule. These provisions are set forth in
18 Section 6 of the proposed rate schedule attached to the Company's Application in this matter as
19 Exhibit A. The introduction of fats, oil and grease, or "FOG", into sewer systems is not only a
20 leading cause of SSOs in the PWR systems, but according to statements issued by the United
21 States Environmental Protection Agency to the United States Congress regarding SSOs in 2007,
22 nearly half of sewer blockages in sewer systems across America are attributable to grease. It is
23 a fact that grease, cooking oils, and fat that make their way into the Company's facilities become

1 extremely problematic and are costly to remove. Grease causes blockages within the collection
2 system, damages lift stations, and directly results in SSOs. Grease also damages wastewater
3 treatment plant equipment, which results in a less efficient treatment process. The labor
4 intensive process of removing grease and the cleanup and treatment of SSOs caused by
5 grease results in unnecessarily increased costs, which are ultimately passed on to our
6 customers. Therefore, we feel the more educated our customers become about how PWR's
7 wastewater collection and treatment systems work, the better the facilities will operate
8 and the less these grease problems will cause increased costs that create upward pressure
9 on rates. Therefore, our customer presentations include discussions and photographs of grease
10 that causes SSOs and must be removed from the collection system. These can be seen in RM –
11 Exhibit 6, pages 36 – 40.

12 **Q. IS THE INTRODUCTION OF GREASE INTO THE PWR SYSTEMS**
13 **CONTRARY TO ANY REGULATORY STANDARDS OF WHICH YOU ARE AWARE?**

14 **A.** It is the Company's understanding and view that grease is a pollutant under federal law,
15 specifically, an EPA Regulation appearing in Part 40 of the Code of Federal Regulations at
16 section 403.5.b.3. The Company is also of the belief and opinion that the unpermitted
17 discharge of pollutants into the environment is contrary to the South Carolina Pollution Control
18 Act, Section 48-1-90. And, we also understand that Commission regulation 103-535,
19 subsections B, E, and N permit the Company to terminate service where pollutants are
20 introduced into our system.

21 **Q. IF THE INTRODUCTION OF FOG IS A VIOLATION OF REGULATORY**
22 **STANDARDS AS YOU HAVE DESCRIBED, WHY IS IT NECESSARY TO INCLUDE**
23 **RATE SCHEDULE LANGUAGE PROHIBITING THE PRACTICE?**

1 **A.** The Company believes it is proper and prudent to provide customers with as much notice
2 as possible that the introduction of pollutants such as grease into our system is not permitted.
3 Customers typically understand that it could be harmful to introduce into the wastewater system
4 but few realize it is actually contrary to both Federal and State regulations and can lead to
5 termination of service. And, making customers aware of the implications of introduction of
6 FOG into our system is certainly consistent with our policy of educating our customers on
7 matters that have the potential to affect them and our system.

8 **Q. HAS THE COMPANY TAKEN ACTIONS TO PREVENT THE DISCHARGE OF**
9 **GREASE INTO THE ALPINE SYSTEM?**

10 **A.** Yes, we have. For commercial customers, PWR now employs the same Interceptor
11 Standards that have been implemented successfully by its sister subsidiary, Palmetto Utilities,
12 Inc., or "PUI." We believe that the application of these interceptor standards in the Alpine
13 system have played a key part in the reduction in the number of SSO's that we have
14 experienced since 2011 when the system was acquired. Currently, all PWR customers that are
15 required to maintain grease traps are in compliance or are actively working to achieve
16 compliance with our Interceptor Standards and are participating in regular grease trap
17 inspections as required by those standards. For residential customers, we have engaged in the
18 educational efforts at our Town Hall meetings that I have described. Additionally, we realize
19 that a number of PWR customers are apartment or other multi-family residential facilities whose
20 tenants do not receive direct communications from PWR. In order to provide FOG education
21 and awareness to these users of the PWR wastewater system, we intend to begin distributing
22 copies of our FOG education information to our customers who own apartment complexes or
23 other multi-family dwelling units for distribution to their tenants so that all residential users of

1 the system are made aware of the problems of introducing grease and cooking oils into the
2 sewer. A copy of the material that will be provided to these customers for distribution to their
3 tenants is included as Exhibit RM- 9. If authorized by such customers, we will also be willing
4 to distribute this information directly to their tenants. These customers should have an incentive
5 to cooperate in this regard as blockages will often occur in collection or satellite systems owned
6 by them and for which PWR is not responsible.

7
8 **Q. WHAT HAS THE COMPANY DONE TO KEEP REGULATORS APPRISED OF**
9 **ONGOING ISSUES WITH THE PWR SYSTEMS?**

10 **A.** Consistent with our philosophy of coordinating with state regulatory agencies to the
11 greatest extent possible, we have met on numerous occasions with DHEC and ORS to discuss
12 environmental regulations, customer education and compliance issues. As previously
13 mentioned, we participated in the 2014 workshop held at the Commission, and both ORS and
14 DHEC representatives have been invited to and attended each of our Town Hall meetings.
15 Additionally, on January 18, 2012, we provided the Commission with an allowable ex parte
16 briefing regarding our educational presentations to customers and apprised the Commission of
17 issues affecting PWR.

18 **Q. WHAT CHANGES TO THE TERMS AND CONDITIONS OF SERVICE ARE**
19 **BEING PROPOSED BY PWR?**

20 Other than our proposed modification to the equivalency ratings for cars served by fast-
21 food restaurant drive-thru facilities which is discussed in detail by Mr. Wallace, the
22 modifications to the terms and conditions of service reflected in the proposed rate schedule will
23 affect only customers served by the Woodland System as all of the provisions proposed to be
24 modified are already contained in the current rate schedule for the Alpine System. There are a

1 number of proposed charges that are either established by PSC regulations or are consistent with
2 provisions of the current rate schedule for the Alpine System which have been approved by the
3 Commission. These charges include a disconnect notice fee, customer account service charge,
4 late payment charge, and a reconnection charge. We have also added language to address multi-
5 dwelling billing consistent with the current Alpine System rate schedule language which reflects
6 State law. Included in the proposed rate schedule is language which would adopt for Woodland
7 customers the same rate design as exists for Alpine customers, which employs an equivalency
8 system based upon the maximum capacity design guidelines for wastewater treatment facilities
9 provided for in Appendix A to Regulation 61-67. As also mentioned by Mr. Wallace, the
10 Woodland System only has one commercial customer, which is a school. It is currently being
11 billed for monthly service at a rate of \$1.70 per person. If the proposed rate schedule is
12 approved, this school would begin being billed on the basis of its number of SFEs, which is
13 determined by the number of persons at the school multiplied by an equivalency rating of 0.05,
14 the product of which would be multiplied by the approved rate. If the proposed rate of \$35.50 is
15 approved, the bill for this school would be \$1,049.03. This would be a reduction of \$71.27 in the
16 monthly charges to the school at current rates. Given that all other customers of the Woodland
17 System are residential, including multi-family, the adoption of the current rate design for the
18 Alpine System would in and of itself have no effect upon them.

19 **Q. YOU MENTIONED THE COMPANY'S COMMITMENT TO CUSTOMER**
20 **SERVICE AND ITS CUSTOMER SERVICE PROGRAM; WOULD YOU PLEASE**
21 **ELABORATE ON THIS STATEMENT?**

22 Yes. Our customer service program is a lynchpin of what we do. In May of 2012, we
23 opened a new customer service office at 1713 Woodcreek Farms Road to accommodate our

1 expanding customer base, which includes the PWR customers served by the Alpine and
2 Woodland systems. There, our customer service representatives, or “CSRs,” receive customer
3 inquiries in person or by way of customer telephone calls. We maintain a computerized service
4 order program and an after-hours emergency answering service, which immediately contacts our
5 field personnel in the event of a back-up, an SSO, or other event requiring immediate attention.
6 The information generated by our new telecommunications system will provide the Company
7 with the ability to monitor, recognize, and plan for trends in customer needs and service issues.
8 The data generated will also enable the Company to prepare for potential seasonal problems
9 such as I&I events during wet weather which are to be anticipated as we complete the task of
10 rehabilitating the PWR collection system. Our billing department implemented online bill-pay
11 options for our PWR customers in November, 2012, and since our last rate proceeding for the
12 Alpine system, in December, 2012, we have added eight CSRs and/or billing specialists to
13 better serve our growing customer base. The Company employed an outside training
14 consultant in January, 2014, to provide a three-day course in customer service skills for all of
15 our CSRs. The training addressed all aspects of the customer contact, including listening skills,
16 call control techniques, interaction skills, positive delivery of information, and effectively
17 handling the occasional difficult caller. The Company also engaged an outside consultant to
18 review and improve our Customer Service/Billing procedures and processes. The consultant
19 made recommendations for the preparation of a Customer Service Training Manual which
20 provided focus on the Call Center, Billing and Collections, the Company’s new billing software
21 and new phone system, Standard Operating Procedures, monthly reporting, accounting controls,
22 and Company communications. The Company believes strongly in maintaining a customer

1 service department that is well-trained and highly capable of providing efficient, effective and
2 reliable service for all of our customers.

3 **Q. YOU MENTIONED A COMMERCIAL CUSTOMER EQUIVALENCY**
4 **SURVEY THAT WAS PERFORMED; WOULD YOU PLEASE DESCRIBE THAT**
5 **EFFORT?**

6 A. Yes. As the Commission is aware from the last rate relief proceeding involving
7 our Alpine system, we conducted an extensive survey of our Alpine commercial
8 customer base preceding that filing to determine the correct number of equivalencies to
9 be applied to commercial customer accounts. As Mr. Sadler mentions in his testimony,
10 that survey included intensive field work in which he and I directly participated. For this
11 case, a less extensive survey was needed.

12 **Q. WHY WAS A LESS EXTENSIVE EQUIVALENCY SURVEY SUITABLE**
13 **FOR THIS CASE?**

14 A. There were several reasons for this. First, and as mentioned in Mr. Sadler's
15 testimony, the previous survey of commercial customers involved extensive field work.
16 Other than as a result of business closings, there have not been many changes in the
17 number of commercial customer equivalency factors determined by the Company and
18 ORS for Alpine system customers since the study performed in last rate relief proceeding.
19 We know that there have been few changes in these factors because PWR now has a
20 greater field presence in our service area with our ongoing grease trap inspection and
21 sewer maintenance programs than was previously the case. These activities enable us to

1 know when businesses expand or close or the business category for a service location
2 changes and these are the primary reasons for the equivalency factors changing.
3 Therefore, PWR is better able to keep up with the equivalency factors for its Alpine
4 system commercial customers and these are updated when and as we learn of them.
5 Also, with respect to both the Alpine and Woodland system customers, the “town hall”
6 meetings with customers and customer organizations I mentioned earlier enable us to
7 explain the equivalency system we use and commercial customers have an opportunity to
8 discuss their equivalency ratings with our personnel at these meetings. Finally, the
9 Woodland system only has one commercial customer whose charges are proposed to be
10 determined by the number of SFEs, which is the school I mentioned earlier. Where there
11 have been business closings or changes in equivalency factors, these have been accounted
12 for in the Company’s rate filing.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 **A.** Yes, it does.